



**City of Lincoln**

**Request for Proposals**

**For**

**Investment Management Services**

**October 7, 2018**

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# **REQUEST FOR PROPOSALS FOR INVESTMENT MANAGEMENT SERVICES**

## **I. INTRODUCTION**

The City of Lincoln is seeking proposals from qualified firms interested in providing investment management services for the City's investment portfolio. The investment portfolio has a current value of approximately \$125 million.

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

In determining individual investment placements, the following factors shall be considered in priority order: safety, liquidity and yield.

The firm selected as the investment manager and its affiliates will be restricted from selling to the City, or buying from the City, any securities to or from that firm's own inventory or account. The investment manager shall act solely in a fiduciary capacity and shall not receive any fee or compensation based upon the purchase or sale of securities but, rather, the investment manager will be compensated pursuant to the provision of its contract with the City.

## **II. MINIMUM QUALIFICATIONS**

To be considered for the role of investment manager, the firm must meet the following minimum qualifications:

- The investment management firm must be a registered Investment Advisor with the Securities and Exchange Commission under the Investment Company Act of 1940 or be exempt from registration;
- The firm must be completely independent of any financial institution or securities brokerage firm, or fully disclose any such relationship. The proposer must act in a fiduciary capacity to the City;
- The investment management firm must have provided for at least five (5) years investment management services comparable to the scope of services contained in this RFP to at least one entity with at least \$200 million in assets managed to a 1 – 3 year or 1 – 5 year fixed-income benchmark.
- The investment management firm must have at least ten (10) years of investment management services experience managing public funds for

California entities, manage funds for a minimum of ten (10) public agencies in the state of California, and must have an existing office in the state of California as of the release date of this RFP.

### **III. SCOPE OF SERVICES**

Specific responsibilities of the selected investment adviser will include, but are not limited to the following:

- A. Advise the City on all matters pertaining to the investment management of operating funds.
- B. Assist the City with cash flow/maturity analysis.
- C. Provide discretionary investment management services:
  - Execute investment trades on behalf of the City in accordance with the Investment Policy, all applicable statutes and bond covenants, if applicable.
  - Solicit competitive quotes from financial institutions and broker/dealers for permitted investment securities and maintain written documentation of such quotes for review by the City, upon request.
  - Interface with the City's custodian and staff to assure the coordination of investments, delivery of securities and availability of funds as needed. (All securities will be held by a third party custodian in the name of the City and all transactions will settle on a "delivery versus payment" basis. The advisor will not provide custodial services or safekeeping.)
  - Monitor the portfolio in relation to the investment market to determine if investments should be repositioned.
  - Monitor the credit worthiness of financial institutions and investments in the portfolio.
- D. Provide input regarding the appropriate measurement of portfolio performance and benchmarks to assess performance.
- E. Provide monthly reports on investment activity, earnings and the market value of the portfolio holdings. Provide quarterly reports showing the portfolio's rate of return and sufficient detail for accounting (recording and management reporting) and financial statement (auditing) purposes.
- F. Annually, review the City's Investment Policy and make recommendations for changes as appropriate.
- G. Communicate regularly with City staff on investment decisions and strategy.
- H. Provide information regarding current and forecasted market and economic conditions, as needed.

- I. Attend meetings with City staff, the City Treasurer and the Fiscal and Investments Oversight Committee as requested.

#### **IV. PROPOSAL PROCEDURES AND SCHEDULE**

##### **A. Schedule of Proposal**

The City anticipates that the process for nominating and selecting a firm, and awarding the contract, will be according to the following tentative schedule:

Request for Proposals Issued	October 7, 2018
Deadline for submission of questions	October 29, 2018
Responses to Questions distributed	November 5, 2018
Proposals Due	December 3, 2018
Firm Interviews	Week of December 17, 2018
Firm Selection / Award of Contract	January 2019

##### **B. Submission of Proposals**

Proposal shall be submitted in a sealed envelope bearing the caption: Request for Proposal for Investment Advisory Services and addressed to:

City of Lincoln  
City Manager's Office  
Attention: Bill Zenoni  
600 Sixth Street  
Lincoln, CA 95648  
bzenoni@municipalresourcegroup.com

Proposers shall submit eight (8) printed copies via mail and one (1) electronic (PDF) copy via email to the contact person listed above.

The printed copies must be delivered to the above office on or before 5:00 p.m. PST on the date listed in the Schedule of Proposal. (Proposals received after the above date and time will not be considered). The City is under no obligation to return proposals.

##### **C. Questions Regarding this RFP**

Inquiries regarding this RFP are due by email on or before 5:00 p.m. PST on the date listed in the Schedule of Proposal. All inquiries must include contact

person, address, and email address. Responses to questions will be provided by Monday October 29, 2018. Questions should be addressed to:

Bill Zenoni  
Municipal Resource Group  
bzenoni@municipalresourcegroup.com

## **V. GENERAL TERMS AND CONDITIONS**

- A. This RFP does not commit the City to enter into a contract. The City expressly reserves the right to reject all proposals at its sole discretion and opinion, without indicating any reason(s) for such rejection. If all proposals are rejected, the City may or may not request additional proposals. The City may withdraw this RFP at any time without advance notice.
- B. The City reserves the right to remedy technical errors in the Request for Proposal process, or waive informalities and irregularities in proposals.
- C. The City may investigate the qualifications of any Proposer under consideration, require confirmation of information furnished by the Proposer, and require additional evidence or qualifications to perform the Services described in this RFP.
- D. The City reserves the right to expand or diminish the scope of services subject to negotiation with the successful Proposer.
- E. The City is not required to select the proposal that may indicate the lowest price or costs.
- F. The City will not be liable for any costs incurred by responding firms related to the preparation and submittal of proposals, making of initial presentation to the City, negotiating a contract for services, or any other expense incurred by the Proposer prior to the date of an executed contract. In addition, no Proposer shall include any such expenses as part of the price proposed to conduct the scope of services for this project.
- G. Proposer may withdraw its proposal at any time before the expiration of the time for submission of proposals as provided in this RFP by delivering to the City of Lincoln City Manager's Office a written request for withdrawal signed by, or on behalf of, the Proposer.

## **VI. CONTRACT TERMS**

The Contract awarded as a result of this RFP will be for an initial three (3) year period with three (3) one-year renewal options.

## **VII. EVALUATION CRITERIA**

The purpose of this RFP is to identify a firm to serve as the investment manager to the City. The firm that best meets the needs and requirements of the City will be

selected. The evaluation criteria that will be used to determine the successful proposer are listed below.

- A. Relevant experience managing fixed-income investments for municipal entities and other governmental clients.
- B. The experience, resources and qualifications of the firm and individuals that would be assigned to this account.
- C. The firm's understanding of the scope of services required by the City and the firm's ability to provide those services.
- D. The firm's investment philosophy and strategy and demonstrated investment performance.
- E. The firm's ability to provide comprehensive portfolio accounting services and performance reporting according to the CFA Institute's Global Investment Performance Standards (GIPS®).
- F. The proposed fees and the value they represent for the services to be provided.

#### **VIII. PROPOSAL FORMAT AND CONTENT**

Information should be presented in the order in which it is requested below.

A. Transmittal Letter (2 pages maximum)

A Transmittal Letter shall be included with the proposal and must contain the following information:

- 1. Identification of firm, including name, address, email address and telephone number;
- 2. Name, title, email address, and telephone number of the firm's contact person during period of proposal evaluation;
- 3. A statement to the effect that the proposal shall remain valid for a period of not less than 90 days from the date of submittal;

B. Technical Proposal

Proposals should be prepared simply and economically, providing a straightforward, concise description of capabilities to satisfy the requirements of the RFP. Emphasis should be on completeness and clarity of content.

1. Firm Background and Organization

- a. Describe the organization, the type of services offered, ownership of your firm, and date founded. Specify the number of years your organization has been providing investment management services.

- b. Describe the firm's sources of revenue, categorized by retail and institutional accounts.
- c. Within the past three years, have there been any significant developments in your organization (changes in ownership, new business ventures)? Do you expect any changes in the near future?
- d. Provide a copy of your firm's most recent audited financial statement as an appendix.
- e. Is your firm a registered investment advisor under the Investment Advisor's Act of 1940? Please attach Part 2A of your most recent Form ADV as an appendix.
- f. Describe any SEC, regulatory censure, or litigation involving your firm, any officer or employee at any time for the last ten years.
- g. Fully describe the firm's professional/errors and omissions insurance coverage.

## 2. Portfolio Management

- a. Are portfolios managed by teams or individuals?
- b. For your latest reporting period, provide the amount managed (exclude accounts for which your services is providing periodic oversight or advice) for:
  - i. Each of the following categories:

	<u>\$ Amount</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Public Organizations	\$ _____	_____	_____	_____
Non-Profit	\$ _____	_____	_____	_____
Corporations/Companies	\$ _____	_____	_____	_____
Individuals	\$ _____	_____	_____	_____
Other _____	\$ _____	_____	_____	_____
Total	\$ _____	100%	_____	100%

- c. List three clients that are most similar to the City of Lincoln for operating fund investment management. For each client listed, include the following:
  - a. Name of entity.
  - b. Dollar amount of funds presently under management.
  - c. Number of years that client has been with your firm.
  - d. Investment approach, e.g., following of prescribed index or cash flow matched.
  - e. Contact person, name, position title, phone number, and email address.



- d. Provide data on account/asset growth and other performance statistics over the past three years for your fixed income clients.

### 3. Key Proposed Personnel and Team Organization

- a. Identify the number of professionals employed by your firm, by classification.
- b. Provide the name, title, phone number and email address of the primary contact person(s) assigned to this account.
- c. Name the investment professionals who will be involved in the decision-making process for the City's portfolio. Information must include:
  - i. Proposed role with the City;
  - ii. Biographical information;
  - iii. Experience working with other California public agencies;
  - iv. Number of years of experience in this field; and
  - v. Number of years with your firm.
- d. What is the back-up if the primary portfolio manager or client contact is away?
- e. How frequently would you suggest your staff meet with the City staff and why? Who will attend these meetings?
- f. Describe the firm's in-house investment research and analytical capabilities. What outside investment and market resources are used by the firm on a regular basis?
- g. Describe the firm's training and education efforts to keep the firm's investment professionals informed of developments relevant to government entities.

### 4. Investment Philosophy/Approach

- a. Describe your firm's investment philosophy for public (government) clients. Briefly describe your firm's investment management philosophy regarding duration, maturity, investment types, credit quality, and yield.
- b. Describe the maturity concentration, quality and sectors of current accounts most similar to the City.
- c. Describe the process you would recommend for establishing the investment objectives and constraints for the City's assets.
- d. Describe your firm's trading methodology and approach.

- e. Describe your firm's decision-making process in terms of structure, such as committees and its membership, meeting frequency, responsibilities, integration of research ideas and portfolio management.
- f. How are brokers/dealers selected? What process do you have in place to monitor brokers/dealers after they have been approved?
- g. Describe your firm's credit philosophy and review process. Who at the firm is responsible for conducting credit research and monitoring?

## 5. Reporting/Performance Measurement

- a. Describe the records you would keep, the reports you would make to the City and the frequency of those reports. Are reports available online? Provide samples of records and reports typically provided to clients.
- b. Describe how you typically report performance. Include a copy of a quarterly performance report to a client similar to the City. (You do not need to identify the client and may redact any client names within the sample report.)
- c. Are you willing to provide and/or develop reporting procedures in line with the City's needs and objectives?
- d. Describe and indicate what national standards the firm uses to compute performance.
- e. Provide performance history for the past ten (10) years. The duration of the composites should be comparable to the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Indices. The composites should consist of a minimum of ten current public sector accounts. **NO SAMPLE PORTFOLIOS.** Provide information about the composition and duration of the data used, including the number of portfolios making up the composite, for your presentation of performance history. The composites should be prepared and presented in compliance with the CFA Institute's Global Investment Performance Standards (GIPS®).

## 6. Control

- a. Describe the procedures used to ensure that client portfolios comply with investment objectives and policies.
- b. Describe the firm's security environment. Specifically cover the physical and digital security and software safeguards that you have put in place to control access to portfolio reporting systems and client account information.

7. Additional Information

- a. Briefly describe any additional feature, attributes, or conditions which the City should consider in the selection process.

8. References

Provide at least three public references, preferably municipalities, for which you have provided the type of services the firm is proposing to provide. Include the date the(s) the services were furnished, the client name, address, and the name and phone number of the individual the City may contact.

9. Fees

- a. Provide a complete fee schedule that would apply to this portfolio(s) to accomplish the requirements of the Scope of Services.
- b. What additional expenses not covered through the proposed fee structure will be expected in order to implement your investment advisory services?
- c. Does the firm act as a broker or as a dealer in securities or receive any other form of additional compensation (including soft dollars) related to this project aside from the direct fee paid by the City?

10. Required Appendices

- a. Audited Financial Statement
- b. SEC ADV Part 2A
- c. Resumes of Key Investment Professionals
- d. Sample Reports

## Attachment A

### Current Investment Holdings

	<u>June 30, 2018</u>
Demand Account	\$ 10,024,477
Local Agency Investment Fund	\$ 27,873,565

#### Managed Funds

Morgan Stanley Money Market Fund	163,725
Corporate Bonds	41,117,149
US Agency Bonds	77,934,961
Certificates of Deposit	<u>6,440,266</u>
Total Managed Funds	\$ 125,492,376

## Attachment B

### CITY OF LINCOLN 2018 INVESTMENT POLICY

#### I. POLICY

In accordance with the laws of the State of California, and under authority granted by the people of the City of Lincoln, the City Treasurer is responsible for investing and safely keeping the unexpended cash funds of the City of Lincoln.

The investment of the funds of the City of Lincoln is directed to the goals of safety of principal, liquidity, and yield in that order. The authority governing investments for municipal governments is set down in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the City of Lincoln is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sections in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result, the balance between the various investments and maturities may change in order to give the City of Lincoln the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

#### II. SCOPE

The investment policy applies to all financial assets of the City of Lincoln as accounted for in the Annual Financial Report. Policy statements outlined in this document focus on the City of Lincoln's pooled funds, but will also apply to all other funds under the City Treasurer's span of control unless specifically exempted by statute or ordinance. This policy is applicable, but not limited to all funds listed below:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Enterprise Funds
5. Trust Funds
6. Any New Funds created by the City Council unless specifically exempted

One exception does exist regarding the investment of bond cash reserve funds. If in the opinion of the City Treasurer, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

### III. PRUDENCE

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

### IV. OBJECTIVES

The City's funds shall be invested in a manner designed to accomplish the following objectives which are listed in priority order:

#### Safety of Principal

Safety of principal is the foremost objective of the City of Lincoln. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or from erosion of the market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit Risk - defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Market Risk - defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

#### Liquidity

Because the City operates its own water, sewer, and garbage utilities and bills for these services monthly, significant cash flow is generated on a daily basis. Historical cash flow

trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

#### Yield

The investment portfolio should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified within the financial statements.

### V. MATURITY MATRIX

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market, or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed two years.

### VI. PERFORMANCE EVALUATION

Investment performance is continually monitored and evaluated by the City Treasurer. Investment performance statistics and activity reports are generated quarterly for presentation to the Fiscal & Investment Oversight Committee and the City Council.

### VII. DELEGATION OF AUTHORITY

On October 13, 1981, the City Council adopted Ordinance 397B, which established the Office of the Director of Finance position for the City of Lincoln. That ordinance assigned to the Director of Finance those duties set forth in Sections 37202 through 37209 and 40802 through 40805 of the Government Code of the State of California.

Pursuant to City of Lincoln Ordinance number 397B, the City Manager is the Director of Finance. The City Manager may delegate the day to day duties of the Office of the Director of Finance to the Director of Support Services.

The City Treasurer is responsible for investment of all unexpended City funds as per California Government Code section 41000 et al. Daily management responsibility has been delegated to the Director of Finance, who shall establish procedures for the operation consistent with this investment policy. In addition, the authority to initiate investment transactions has also been delegated to the Director of Finance.

#### VIII. FISCAL & INVESTMENT OVERSIGHT COMMITTEE

The Fiscal & Investment Oversight Committee advises the City Council on policy issues related to fiscal and investment matters. The Committee consists of the City Treasurer, two members of the Lincoln City Council and two public members appointed by the City Council. This committee shall act in an advisory manner to the City Treasurer on areas covered by this Investment Policy. The City Manager and Director of Support Services act in a staff advisory capacity to the Fiscal & Investment Oversight Committee. The Committee shall meet quarterly or upon the request of the committee members.

#### IX. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally, the City Treasurer and the members of the investment committee are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

#### X. SAFEKEEPING OF SECURITIES

To protect against fraud, embezzlement, or losses caused by a collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as an agent of the city under the terms of a custody agreement. However, as to the minimum legal requirement per Government Code Sections 53601 and 53608, as long as the securities for safekeeping are held in the name of or under the control of the agency and kept legally separate trust department, they can be held by the same firm from which they were purchased.

Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in quarterly reporting to the City Council

#### XI. INTERNAL CONTROL

Internal controls are a set of policies and procedures to prevent deliberate or misguided use of funds for unauthorized purposes. The City of Lincoln's Investment Policy describes and formalizes measures to minimize the risk of loss and to ensure that financial reporting of the City's investments is accurate and timely. A common internal



control element, with respect to cash management, is segregation of duties. Sections VI, VII, VIII and X of the Investment Policy segregate the duties of individuals involved with the management and reporting of City investments in order to improve the detection of errors or irregularities that may occur.

The signatures of both the City Manager and the Director of Support Services are required to complete long term investment transactions. Investment transactions are completed by a qualified broker/dealer, who is contractually obligated to conform to the Safety of Principal controls described in this policy. The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Support Services Department on a monthly basis. Every transaction will be independently confirmed by broker dealers directly to the City Treasurer, City Manager, and Director of Support Services via e-mail. The investment portfolio statements are included in the quarterly reporting, and are subject to the review of the Fiscal & Investment Oversight Committee and of the public. These internal controls conform with prevailing auditing standards and to standard industry practices.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with government policies and procedures.

## XII. REPORTING

Staff shall review and render quarterly reports to the City Manager, Fiscal & Investment Oversight Committee and City Council which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest to date due for all securities.

## XIII. QUALIFIED BROKERS/DEALERS

The City shall transact business only with banks and brokers/dealers. Investment staff shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker, and make markets in the securities appropriate to the City's needs. All securities shall be issued by organizations of either A grade or better by either

Moody's or Standard and Poor's Index of Investments or backed by the full faith of the government of the United States.

The Director of Finance shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

Collateral is required for investments in certificates of deposit, repurchase agreements, and reverse repurchase agreements. In order to reduce market risk, the collateral level will be at least 102% of marked value of principal and accrued interest.

In order to conform with the provisions of the Federal Bankruptcy Code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible bankers acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to the principal and interest by the United States or any agency of the United States.

#### XIV. AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code Sections 53600 et seq., within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation on the portfolio, which can be invested in this category, although a five-year maturity limitation is applicable.
2. Federal agency or United States government-sponsored enterprise obligations, participations or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no percentage limitation on the portfolio for these securities, although a five-year maturity limitation is applicable.
3. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State Law. LAIF is a demand account so no maturity limitation is required.

Investments detailed in items 4 through 11 are further restricted to percentage of the cost value of the portfolio in any one-issuer name to a maximum percentage of 15%. The total value invested in any one issuer shall not exceed 5% of the issuer's net worth. Again, a five-year maximum maturity is applicable unless further restricted by this policy.

4. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Bankers acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio.
5. Commercial paper rated P1 by Moody's Investor Services, A1 by Standard and Poor's or F1 by Fitch, and issued by domestic corporations having assets in excess of \$500 million and having an AA or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio.
6. Negotiable certificates of deposit issued by nationally or state chartered banks or

state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of the total portfolio. A maturity limitation of five years is applicable.

7. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated A or higher by Moody's or Standard and Poor's rating services at the time of purchase. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and not more than 15% of the market value may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.

8. Bonds issued by a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Purchases of bonds issued by local agencies must be rated "AAA" and may not exceed 15% of the cost value of the portfolio.

Ineligible investments are those that are not described herein, including, but not limited to: common stocks and long term (over five years maturity) notes and bonds are prohibited from use in this portfolio unless specifically allowed both by state law and City Council approval. It is noted that special circumstances may arise where these methods of investment may become necessary. When this becomes necessary, the City Council will be asked to take the appropriate action to ratify the means of investment necessary, provided that it is allowable by California Code.

The following table depicts the maximum percentage limitations and investment terms by instrument which shall be used for the City's pooled funds portfolio:

<u>Investment Type</u>	<u>Maximum Specified % of Portfolio</u>	<u>Maximum Maturity</u>
US Treasury Obligations	100%	5 Years
US Gov't Agency Obligations	100%	5 Years
Local Agency Investment Fund (LAIF)	As Permitted By Law	As Permitted By Law
Bankers Acceptances	40%	180 Days
Commercial Paper of Prime Quality	15%	270 Days
Negotiable Certificates of Deposit	30%	5 Years
Medium Term Corporate Notes	30%	5 Years
California Local Agency Obligations	15%	5 Years

#### XV. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will supersede any of the material presented herein. In this case, the applicable law will become part and parcel of this investment policy.

#### XVI. INTEREST EARNINGS.

All monies earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio

#### XVII. LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City of Lincoln to limit the potential effects of market value erosion by adhering to the following guidelines:

1. All immediate and anticipated changes in liquidity requirements will be addressed prior to purchasing all investments.
2. Maturity dates for long-term investments will coincide with significant cash flow requirements where possible to assist with short term cash requirements at maturity.
3. All long-term securities will be purchased with the intent to hold all investments to maturity under the prevailing economic conditions. However, economic or market conditions may change, making it in the city's best interest to sell or trade a security prior to maturity.

#### XVIII. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principles. These objectives will be achieved by use of the following strategies:

Active Portfolio Management: Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Portfolio Maturity Management: When structuring the maturity composition of the portfolio, the City shall evaluate the current cash flow trends, expected interest rate yields, and necessary cash flow requirements. It is recognized that in optimal market condition, longer maturities produce higher yields.

Securities Swaps: The City may take advantage of a security swap opportunity in order to improve overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions will result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

#### I. POLICY REVIEW

The City of Lincoln's investment policy shall be adopted by resolution of the City Council annually on a calendar year basis. This investment policy shall be reviewed at least annually to ensure that it is consistent with the objectives of safety, liquidity, yield, and relevance to current law and financial and economic trends. Any amendments to this policy, other than State and Federal Laws, which automatically supersede the relevant sections, shall be forwarded to the City Council for adoption by resolution